STATE OF WASHINGTON

OFFICE OF
INSURANCE COMMISSIONER

REPORT OF MARKET CONDUCT EXAMINATION

OF

ATLANTA CASUALTY COMPANY

NORCROSS, GEORGIA

As of October 31, 1996

Seattle Washington

January 22, 1997

Deborah Senn
Insurance Commissioner
Olympia, Washington 98504

Dear Commissioner Senn:

Pursuant to your instructions and in compliance with the laws of the State of Washington, a market conduct examination has been made of the claims settlement practices of :

Atlanta Casualty Company

P.O. Box 81168

Atlanta, Georgia 30366

and this report of examination is respectfully submitted.

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EXAMINATION REPORT CERTIFICATION

This examination was conducted in accordance with Office of the Insurance Commissioner and National Association of Insurance Commissioners market conduct examination procedures. This examination was performed by James Rigney and Shirley Merrill, who also participated in the preparation of this report.

I certify that the foregoing is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of the Insurance Commissioner, and that this report is true and correct to the best of my knowledge and belief.

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Pamela Martin

Chief Market Conduct Examiner

Office of the Insurance Commissioner

State of Washington

SCOPE OF EXAMINATION

This is the second market conduct examination of Atlanta Casualty Company for Washington State. The first examination was completed in March of 1996. The results of that examination indicated the company was having problems with claims handling procedures in Washington State. It was also determined that the company's claim settlement practices should be re-examined sometime within the next 18 months. See section entitled AClaim Settlement Practices@ for more detail.

This examination focused only on open and closed claims which involved Washington State insureds. No other company functions were examined. The time frame was between March 1, 1996 and October 31, 1996. The main purpose of this examination was to determine what changes the company had implemented to correct errors and problems noted during the prior examination.

This examination was conducted at the company's home office located at: 3169 Holcomb Bridge Road, Norcross, Georgia, as was the prior examination. The claims adjusters and files are housed in other offices in the area. However, the examiners had access to all claim files, both hard copy and on line materials.

It should be noted that this company writes non-standard personal automobile coverages only.

The market conduct examination is an examination by exception and any company functions examined and not specifically mentioned may be assumed to be satisfactory.

CLAIM SETTLEMENT PRACTICES

Due to the results of the prior examination, a meeting was held with Bill Frandsen, John Woodall, Jim Rigney and Shirley Merrill of the Insurance Commissioner's Office and Randy Corbin and Shirl Baggett of Atlanta Casualty Company. The meeting was held in Olympia, Washington on June 28, 1996.

As a result of this meeting, it was decided a follow up examination of the claim practices of the company would be done to see if the company had remedied the situations found during the March Examination.

During the course of the re-examination, 103 claim files were reviewed. These files included total losses, collision, comprehensive, medical and PIP, (personal injury protection). Bodily injury and property damage liability claims were also included in this review.

The files were examined for timeliness of contacts with the insured/claimant, promptness of payments and overall claim procedures. Part of the examination was to determine how actual cash value (ACV) was calculated on total losses. In cases of total loss, the examiners also needed to verify if all applicable taxes, license fees and any other fees incident to transfer of evidence of ownership had been paid correctly.

As a general rule to establish the ACV of a vehicle, the company utilized an outside firm, Certified Collateral Corporation (CCC). This company specializes in establishing the ACV of vehicles in the insureds' geographical area by contacting auto dealers and consulting newspaper ads regarding comparable vehicles.

The company also utilizes various independent adjusters to determine the cost to repair a vehicle or if the vehicle is a total loss. When these independent adjusters determine a vehicle to be a total loss, they will usually get salvage bids and local dealer quotes to establish the ACV .

There were three cases where the examiners questioned the company about how the ACV was figured. In one situation the company adjuster had used a CCC evaluation done for the Little Rock, Arkansas area for a Washington insured. In this same claim, the CCC utilized the San Francisco Bay area for the third party. The loss did take place in Washington state. The file was returned to have the ACV re-calculated. It can be noted that the corrected ACVs were lower than what the settlement had been based on and the company took no action to have the over payment returned.

Two of the claim files indicated the adjuster added the NADA book price to the CCC or independent adjuster's dealer quotes which lowered the ACV. Both of these were referred to management to make corrections.

Thirty-seven total loss claims were examined to ascertain if the company had corrected it's procedure on figuring the unexpired portion of the vehicle license fees. It appears this procedure has been corrected. However, there were four instances where it was figured incorrectly. This was discussed with the person in charge of license computations and the examiners feel this problem should now be resolved. The four errors were recomputed and the additional money was sent to the insureds involved.

There were two cases where the insured or claimant kept the salvage of the totaled vehicle and the company charged an anticipated salvage value rather than what the independent adjuster had been quoted by salvage yards. The anticipated salvage value was considerably higher. These were returned to management to correct and discuss. The company agreed they would no longer use the anticipated salvage recommended by CCC but would rely on actual quotes from salvage yards. The difference was returned to the insureds.

Three files revealed the loss had been settled under the insured's collision coverage rather than their underinsured motorist property damage (UIMPD) coverage, when in fact the losses were UIMPD losses. These were all referred to management to correct and return to the insured the difference in their deductible.

Four files which the examiners referred to management to correct involved insureds and claimants who did not speak English well. In one case the adjuster did not pursue speaking with a passenger in their insured's vehicle although the claim file indicated an injury. The examiners were told the company had minimal information on the passenger and the insured spoke minimal English. This was discussed with management. The examiners explained to the company that the fact an insured or claimant did not speak English, well or at all, did not relieve the company from their responsibility to fully investigate and settle all claims in a fair and equitable manner. It should be noted that in some of the claims files, the adjuster would ask an agent or relative to act as interpreter. Also noted was the use of some of the independent adjusters or other interpreter services.

Noted in some files were long and unnecessary delays in settling a rather simple loss. Some of the delays do result from a lack of response and cooperation from insureds and claimants. However, this report deals only with the delays of the company.

In one case, it took over eight months to determine if the third party was actually underinsured. The company even hired a private detective to resolve the issue. Not only should it not take eight months to resolve the issue, the claim should have been paid as an underinsured loss, a coverage their insured had purchased. The company can then subrogate against the third party and if it turns out there is insurance, as the company said

sometimes does happen, they and their insured should be fully reimbursed. Although this example was the worst one, in two other files it was noted that it took over thirty days to determine if the adverse party was insured or not.

In one situation, the insured was charged his collision deductible. However on the loss notice it stated the insured had been rear-ended by an underinsured driver. The woman's name and address were on the loss notice. The company made no attempt to contact the adverse party to determine if she was in fact insured or to get any facts of the loss.

In four other files it was noted that an adjuster would attempt contact with an insured or claimant and leave a message, then set a dairy date of three to four weeks waiting for a return call. There is the possibility the message didn't reach the intended party. If the party did not return a call after a few days, another attempt should be made. Also the adjuster could send the party a Acalling card@, asking that he/she call the adjuster.

In many of the files reviewed, there was still poor documentation in the activity logs. The company management needs to stress to their adjusters that all telephone calls or any contact with the insured or claimant must be disclosed in the claim file. All activity regarding the claim must be documented.

It is the examiners' opinion that in some areas, there was an improvement over the claim handling practices that were observed that the company's claims handling should be closely monitored and a reexamination should be considered at a future date.

The company has recently completed arrangements to open a regional claims office in Phoenix, Arizona, which will process claims on the west coast. They also have employed two experienced adjusters who will be housed in Washington State. This should help solve delays in claim handling procedures. The adjusters will have check writing authority which should be a

great help in reducing the time it takes the insureds/claimants to receive payments.

INSTRUCTIONS AND RECOMMENDATIONS

INSTRUCTIONS:

1. The company must instruct all claims adjusters of the importance of fully documenting all claim files. WAC 284-30-340 requires the claim files contain all notes and work papers pertaining to the claim in such detail that all pertinent events and the dates of such events can be easily reconstructed.

2. The company must also instruct all claims adjusters of the importance of prompt claim investigation. WAC 284-30-370 requires insurers to complete investigations within 30 days after notice of a claim unless the investigation cannot reasonably be completed within such a time. If the investigation cannot be completed within the required time frame, the reasons why should then be noted as mentioned in instruction number one.

RECOMMENDATIONS:

1. The adjusters should maintain a shorter response diary when requesting information from an insured or claimant.

2. Supervising adjusters should also maintain a shorter diary in order to monitor the progress and timeliness of the claim settlement procedures.

ACKNOWLEDGMENT

The examiners wish to express their appreciation for the courtesy and cooperation extended to them by management and personnel of the Atlanta Casualty Company during the course of this examination.